

Clime Capital Limited (ASX:CAM)

# Quarterly Report

March 2016



## Chairman's Letter

Dear Fellow Shareholder,

The March quarter was characterised by significant equity price volatility as market traders took hold and focused on short term headwinds. Yet by quarter end, much of the negative price volatility that consumed the first 6 weeks of 2016 (negative 10%) had reversed, with a solid market price recovery in March. The end result was that the Australian market fell by about 5% over the quarter. Perhaps of more significance, over the year to March, the market index experienced a fall of over 13%.

Much of the price damage related to bank shares, which make up approximately 30% of the Australian Index. The bank index fell by 13% over the March quarter while (belatedly) the resources index lifted by 3%. The resource stocks benefited from a bounce in energy and iron ore prices. More recently, the foundations for commodity prices have begun to fall away once again, and it is our view that resource stock prices may have benefited from a false dawn.

The January market panic was largely caused by a bout of pessimism regarding the slowdown in China's economy, and in particular fear of a large devaluation of the Yuan. There was concurrent anxiety about the US Federal Reserve tightening interest rates. While the Chinese currency did slightly devalue, the Federal Reserve has subsequently made it clear that it is in no hurry to adjust rates.

Another concern adversely affecting markets emanated from the oil price decline, and the consequential blow-out in corporate credit spreads. The fear was that the banking system would be overrun with bad debts related to energy companies. However more recently logic has prevailed, with the view that lower energy prices will support economic growth via augmented consumer spending and lower transport and manufacturing costs.

Importantly, recent economic reports show that both the Chinese and US economies are performing reasonably well. The signals out of Beijing are that the Chinese Government is again focused on growth rather than reform – at least for the time being. Further, the signals out of Washington are that the Federal Reserve is content to be patient with regard to the normalisation of monetary policy.

In fact, it is not just the Federal Reserve that is in easing mode. In the past couple of months, the Bank of Japan, the European Central Bank, the Reserve Bank of New Zealand, the Norwegian Central Bank, the Bank of Indonesia and the People's Bank of China have all eased monetary policy. Central banks are supporting economies that could hardly be described as being in distress, and the effect has been to dampen the risk of recession – for now.

From the Australian perspective, we expect that the price volatility of the March quarter may well continue. The transition of the Australian economy away from resources is continuing, but it has a long way to go. Further, an election is now possibly only a few months away, and despite much needed taxation adjustments, these will likely not be addressed this year. This leads us to forecast that Australian equity market returns will continue to be dominated by yield, and secondly, that the recent lift in the \$A will reverse unless there is an unlikely recovery in commodity prices.

Kind Regards,



**John Abernethy**

### In this issue

Chairman's Letter 1

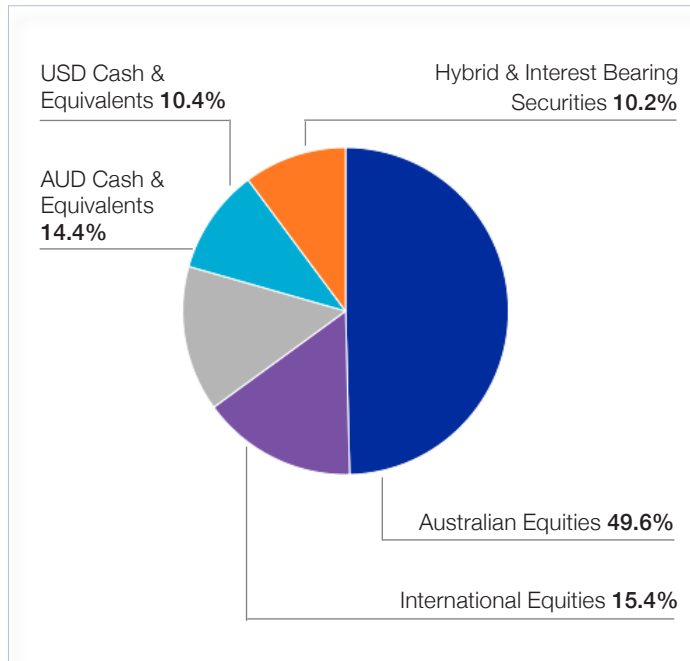
Portfolio Summary 2

The Clime Capital  
offer to  
Shareholders 5

About  
Clime Capital 6

# Portfolio Summary at 31 March 2016

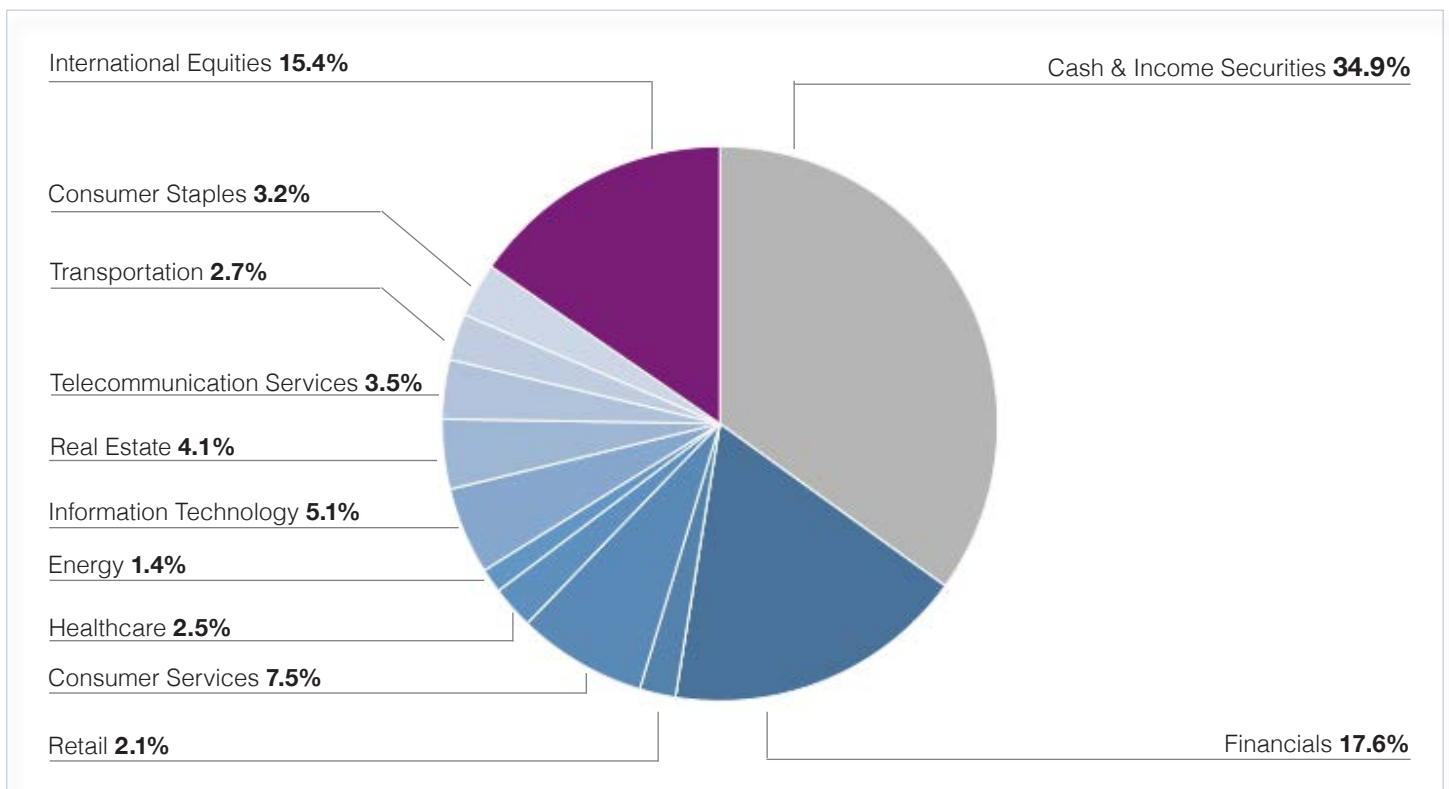
## Asset Allocation



## Top 10 Holdings (Weightings %)

<i>Australian Equities</i>	
National Australia Bank	4.91
Commonwealth Bank of Australia	4.32
Telstra Corporation Limited	3.45
Computershare Limited	3.05
Woolworths Limited	2.75
Retail Food Group Limited	2.73
Qube Holdings Limited	2.71
Multiplex Convertible Notes	2.59
Macquarie Perpetual Notes	2.56
Credit Corp Group	2.53
<i>International Equities</i>	
Mastercard Inc	1.99
Oracle Corporation	1.99
American International Group (AIG) Inc	1.75
<i>AUD Cash</i>	14.39
<i>USD Cash</i>	10.38
<b>Total</b>	<b>62.10</b>

## Sector Allocation



## Australian Securities Summary

Specific to portfolio movements, we established several new positions during the quarter as value became apparent. This included positions in Macquarie Group (MQG), GPT Metro Office Fund (GMF), Nick Scali (NCK), Elanor Investors (ENN), Ramsay Health Care (RHC) and Wesfarmers (WES). To varying degrees, all have positively contributed to performance in the short period since coming into the portfolio.

Small positions in Ainsworth Game Technology (AGI) and BHP Billiton (BHP) were sold during the quarter as a result of growing concerns relating to both business performance and their respective outlooks. Furthermore, the position in Flight Centre (FLT) was liquidated at a healthy profit as its price run back up to assessed value.

Despite the poor returns generated by the index as a whole, some positions positively contributed to performance during the quarter, most notably Retail Food Group (RFG) and Seek (SEK). On the flipside, negative contributions were recorded from the following positions: the major banks (ANZ, CBA, NAB), Computershare (CPU) and Woolworths (WOW).

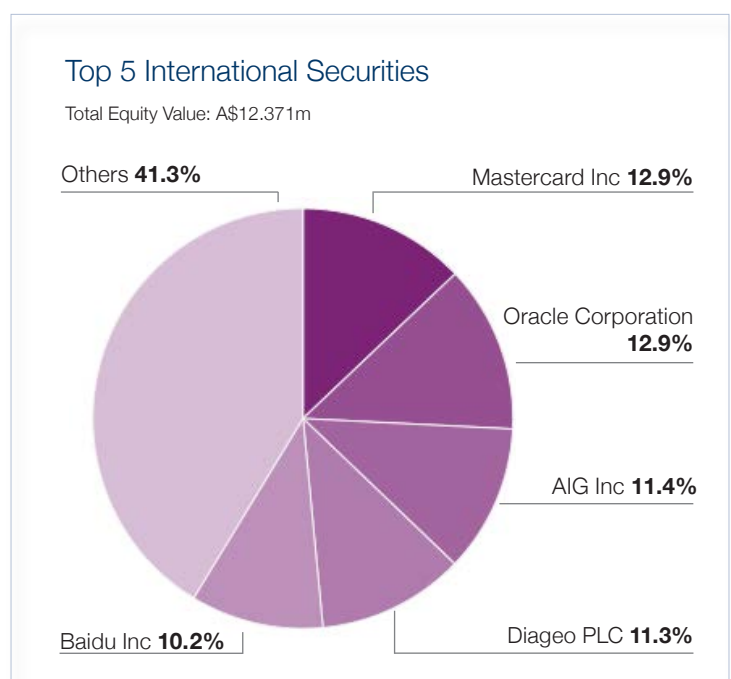


## International Securities Summary

Despite recent volatility across global equity markets, the international portion of the Clime Capital portfolio performed solidly during the quarter. In fact, such volatility provided opportunities to initiate positions in a number of high quality companies. New positions initiated during the quarter included Alphabet Inc. (GOOG), Amgen Inc. (AMGN), Baidu.com (BIDU) and MasterCard Inc. (MA), Again, all have positively contributed to performance in the short period since coming into the portfolio.

Following changes to the respective outlooks of American Express (AXP) and Citigroup (C), both positions were sold during the period.

In terms of positive portfolio contributions, the portfolio benefitted from strong performance of Cognizant Tech Solutions (CTSH), Oracle Corp (ORCL) and Yum! Brands Inc. during the quarter, with all rallying solidly from recent lows. Negative contributions were recorded primarily from large cap financials during the quarter, the most notable being American Insurance Group (AIG), Bank of America (BAC) and Wells Fargo & Company (WFC).



## Investments (\$m)

	Mar '16	Feb '16	Jan '16	Dec '15	Nov '15	Oct '15
Listed Securities	\$60.29	\$58.82	\$64.38	\$70.38	\$70.79	\$74.48
Cash	\$19.86	\$19.67	\$16.85	\$15.92	\$14.38	\$11.57
Net Assets	\$80.15	\$78.49	\$81.23	\$86.30	\$85.17	\$86.05
Dividends Paid	-	-	\$1.12	-	-	\$1.12
Taxes Paid	-	\$0.10	-	-	-	\$0.31
Buybacks Funded	\$0.37	\$0.34	\$0.17	\$0.26	\$0.09	\$0.11

## 7 Year Total Shareholder Returns: \$10,000 (February 2009 to March 2016)



## The Clime Capital offer to shareholders

Clime Capital Limited (“Clime”) offers investors the opportunity to invest in a value focused “closed end” Listed Investment Company managed by a recognized top performing Value Equity Manager - Clime Asset Management (“the Manager”).

The Clime investment company structure offers a number of key advantages to investors.

These are:

- Clime (through its Manager’s decisions) will not be a forced seller of securities in difficult times;
- Clime will not be forced buyers at inappropriate times;
- Clime pays quarterly dividends to ordinary & preference shareholders;
- High levels of transparency by being listed on the ASX.

This allows Clime to focus on protecting and growing its capital over the longer term.

Clime invests in a diversified portfolio of Australian & International businesses, trusts and interest bearing securities.

Clime has a disciplined investment approach focused on the distinction between value and price. The allocation of investment capital into the market generally and stocks specifically is tempered by the Manager’s continual macro-economic overlay. The company has the ability to hold elevated cash levels when market risks are considered to be excessive or value is not apparent. The Manager has the ability to look across listed asset classes to seek absolute returns. This is a unique offering in an environment where many managers are often forced to be fully invested in one asset class with asset consultants dictating weightings.

Clime benefits from a strong and experienced team of value focused investment professionals. The Manager is the largest shareholder in Clime and thus its interests are strongly aligned with shareholders.

### Ordinary Shares Overview (ASX:CAM)

Share Price (at month end)	\$0.80
Rolling 12 Month Dividend	4.8cps
Historical Dividend Yield	6.0%
Percentage Franked	100%
Grossed Up Yield	8.6%
Dividend Reinvestment Plan	Yes

### Preference Shares Overview (ASX:CAMPA)

Share Price (at month end)	\$1.29
Rolling 12 Month Dividend	18.0cps
Historical Dividend Yield	14.0%
Percentage Franked	100%
Grossed Up Yield	19.9%
Dividend Reinvestment Plan	No

*Converting Preference shareholders will accrue the bonus issue and upon conversion will receive 1.387 Ordinary Shares for every Converting Preference Share.*

# About Clime Capital Limited



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Clime Capital Limited (ASX:CAM) was listed on the ASX in February 2004 to provide investors with the opportunity to participate in a long-term approach to portfolio investing using value investing principles.

The company's investment objective is to generate returns for shareholders by investing in businesses with understandable economics and excellent growth and income potential that are run by capable management.

The company was formed to provide access for all investors to a strategy intended to create long-term wealth by purchasing, at rational prices, a portfolio of businesses whose earnings are expected to increase over the years.

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